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Financial Markets

Irving Trust

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Friday (Noon)

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Concern has heightened and attention has focused on the failure of Congress to raise the limit on the nation's debt ceiling, currently set at nearly $1.4 trillion. The Treasury's current outstanding debt is right at this limit, and that has led to the postponement of the last two scheduled auctions of Treasury securities. The market's concern, however, is basically one of tactics right now--there is no real concern that the debt limit won't be raised to accommodate the Treasury's necessary short-term financing needs. Rather, concern centers on the approach of year-end and the great quantity of auctions yet to come in a period disrupted by many holidays. The Treasury has already indicated that it needs to raise about another $30 billion before year-end and has scheduled auctions for about one-half of the business days remaining between now and year-end. That is a poor tactical situation for the middlemen in the auction process, the government securities dealers.

The heavy calendar of auctions, relative to the number of working days left in the year, combines with a pronounced uncertainty over when the auctions will again be able to get under way. These factors are sufficient to explain why the long end of the market has performed poorly in recent days. However, stepping back a bit, we see that the fundamentals are such that we can be somewhat more confident in the temporary nature of the current market back-up. The Fed will wish to sustain economic growth and certainly will be reluctant to tighten policy at this juncture.

Some of the key sectors of the economy are not barreling forward as they had been. The interest sensitive sectors in particular are not doing that well. Housing starts fell sharply, by 13.5% in September, to an annual rate of 1.65 million units. Auto sales are not problematic, but they are not surging either. These are both key sectors, and the effects of their slower growth will spread to other parts of the economy. Still, there is no ominous contraction in progress; prospects for moderate growth are good. But as the initial phase of strong economic expansion subsides, some of the economic signals will be mixed. Some indicators are still strong: We posted a 0.5 percentage point decline in the rate of unemployment in October. Also, we experienced a 0.5% increase in the urban CPI for September. Together, these factors may indicate to some a stronger economy or a need to restrict money growth; I would disagree.

The potential restraining effects of high interest rates are still to be feared. The world economy needs real GNP growth here in the U.S. Thus the decline in the unemployment rate will be seen as good news and not as a signal of an economy in danger of overheating. On balance, the current wiggle upward in long-term rates has dragged up some of the short rates too--but there has been no fundamental change afoot in Fed policy. Call it mostly technical, and follow closely Congressional action on the debt ceiling--that's the impediment.

Robert A. Brusca

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Market Yields

	11/4/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	12.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	9.50
Federal Funds	9.31	9.31	9.25
Repurchase Agreements	9.25	9.20	9.25
U.S. Treasury Issues			
Bills			
3 months	9.09	8.92	8.01
6 months	9.45	9.34	8.70
1 year	9.94	9.70	8.99
Coupons			
2 years	10.71	10.59	9.71
4 years	11.24	11.15	10.20
7 years	11.69	11.54	10.48
10 years	11.80	11.65	10.47
Long Bond	11.90	11.70	10.69
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.25	9.15	8.85
3 months	9.45	9.25	8.95
6 months	9.55	9.35	9.10
1 year	10.00	9.80	9.50
Banker's Acceptances			
1 month	9.25	9.17	8.70
3 months	9.45	9.25	8.90
6 months	9.63	9.43	9.05
Eurodollar Deposits			
1 month	9.68	9.56	9.38
2 months	9.87	9.69	9.50
3 months	9.94	9.69	9.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.29	9.24	8.76
1 month	9.33	9.25	8.81
3 months	9.34	9.21	8.81
Bank Holding Companies			
1 month	8.94	8.94	8.68
Dealer Placed:			
3 months	9.38	9.35	8.68
New AA Corporate Utility Bond	13.20	12.85	12.00
Tax Exempt			
6 month Project Notes	5.35	5.30	4.30
1 year AAA Bond	5.30	5.50	5.50
5 year AAA Bond	6.80	6.60	7.00
20 year AAA Bond	9.10	9.00	9.30

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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